

## KAKIMOTO AND CO., LLP

CERTIFIED PUBLIC ACCOUNTANTS

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May 1998

To All of Our Valued Clients and Friends:

We are pleased to be able to send you our May 1998 newsletter. Our topics for this newsletter are as follows:

- INTRODUCTION OF OUR NEW TAX MANAGER
- THE MILLENNIUM BUG
- SOCIAL SECURITY BENEFITS

### Our Services

- **Accounting Service** - In addition to many of the traditional accounting services we offer, ranging from general bookkeeping assistance to compilations, reviews and audits of financial statements, we also offer employee benefit plan audits, internal control structure evaluations, outside source of accounting, and business valuation. *We will do our best to meet your expectations by providing quality services at reasonable fees.*
- **Information Technology** - Technology continues to be an important factor in making our businesses more efficient. Are you utilizing your computer system to its fullest? Are you experiencing computer problems and not getting the proper support? Most commonly, improper support results from insufficient accounting knowledge. As CPAs, we can combine our knowledge of accounting and information systems to provide you with the following services *better*:
  - Computer networking for small to medium sized companies
  - Accounting software selection, installation, training, and support
  - General computer usage consultations and training
  - Internet consultations

*For any of our services, please call us for a free consultation and fee quotes.*

If you are interested or have any questions, please call Gerald W. Kakimoto or Edward Y. Valparaiso at (310) 715-9100. For more information about our firm, please visit our website at <http://www.kakimoto.com>.

And lastly, the Japanese version of this newsletter is available by request or through our website. Kakimoto and Co., LLP

May 1998

## **INTRODUCTION OF OUR NEW TAX MANAGER**

The firm is pleased to announce the addition of **Michael J. Polashek** as our new Tax Manager. Michael is a California and Arizona *attorney*, and an Arizona C.P.A. He earned a bachelor's degree in accounting from the University of Arizona in 1982, and graduated *cum laude* from Arizona State University College of Law in 1995.

Michael recently relocated to the Los Angeles area from Phoenix, where he practiced law *with Gust Rosenfeld, P.L.C.*, a medium-sized full-service law firm. In addition to his general legal background, Michael has a *substantial tax background*. Prior to returning to law school in 1992, he worked for over six years with the *Arizona Department of Revenue*. At the Department of Revenue, he worked in the areas of income tax (especially multi-state corporation income tax) and sales tax. During his last two years with the Department of Revenue, Michael represented the Department in administrative hearings in which taxpayers were challenging corporate income tax audits. As an attorney with Gust Rosenfeld, Michael represented several institutional clients with regard to income and sales tax matters, and *appeared in Arizona Tax Court*.

The firm is proud to make Michael's background and skills available to its clients. Michael's talents will be especially valuable to our clients for purposes of *tax planning and representation before the taxing authorities*. Michael will devote his efforts to *all areas of taxation*, including federal and state income tax, sales tax and property tax.

Our clients are facing increasing needs due to the demands imposed by the tax authorities and the challenges resulting from the complexities in the changing tax laws. *We are ready to help you!*

## **THE MILLENNIUM BUG**

With the millennium approaching soon, the Year 2000 (a.k.a. Y2K) problem will affect many of us. In general, the Y2K problem relates to the format in which the computer stores dates. For example, the date December 25, 1998, is "12/25/98". But in the year 2000, the date "12/25/00", might be interpreted as Christmas 1900. In the early days of computers, when they were low-powered by today's standards, programmers only used two digits to store the year because it saved processing time and space. Programmers didn't think their programs would still be in use in the year 2000, however, the programs became too expensive to rewrite, and was never fixed. It is now estimated total costs will range anywhere from \$200 - \$600 billion to correct this problem.

All types of software and hardware are affected. Most software affected are time sensitive programs, such as accounting software. Date calculations may be unreliable, or may not function at all. Accounts receivable and payable aging reports may not be meaningful, interest calculations will be incorrect, etc. Although, the problem exists mainly in older mainframe computers and software, small businesses should not think they are immune from the millennium bug.

## THE MILLENNIUM BUG (Continued)

In addition to testing software, your hardware should be tested for its ability to handle the year 2000. The Macintosh PC's operating system is Y2K compliant, however, the applications installed should be tested to verify they are also Y2K compliant. Unfortunately, most of us use the Intel based (IBM compatible) PCs and will eventually be faced with this problem. Some of the newer computers, especially ones with Pentium processors, are programmed to handle the millennium and should not have to deal with the dating problem. We recommend testing the system anyway. Taking precautions now will save you time, money and frustration later on.

There are different ways to test your system. You can create test data and test your system yourself, or there are websites, such as [www.righttime.com](http://www.righttime.com), that offer utilities that will check your computer system. You can also contact your computer or motherboard manufacturer for information. Most software companies are writing programs that will handle the millennium change and are recommending that customers upgrade to the most recent version. If after you have tested your system, and it fails the Y2K test, then you must decide whether it is more beneficial to upgrade your system or purchase a new one.

This is a problem that will affect many businesses, and should not be taken lightly. If you have any questions, or need help testing your computer system, please contact us. We can assist you to ensure your computer system will be able to handle the millennium bug.

## **SOCIAL SECURITY BENEFITS**

Many people have Social Security and Medicare taxes withheld from their salary every paycheck. It is your right to understand these benefits because they are paid out of your Social Security and Medicare tax payments. People may think of Social Security as simply a retirement program. However, there are other benefits. Depending on your circumstances, you may be eligible for Social Security regardless of your age. Also, even if you live in Japan, you may receive Social Security if you are qualified. Social Security has the following benefits:

- Retirement benefits
- Disability benefits
- Benefits for your family
- Survivors benefits
- Supplemental Security Income
- Medicaid and Medicare

This article will provide an overview of the Social Security benefits that are available to qualified individuals.

Social Security is based on a simple concept. When you work, you pay taxes into the Social Security system and when you retire or become disabled, you, your spouse, and your dependent children receive monthly benefits that are based on your earnings. Social Security benefits are not intended to meet all of your financial needs. When you retire, you'll probably need other income such as savings or other retirement plans (IRA, 401k, etc)

### **Retirement Benefits**

#### **(1) Eligibility for Social Security**

You must work and pay taxes into Social Security in order to get the benefits, unless you qualify to receive benefits as a dependent or survivor on another person's Social Security record. As you work and pay taxes, you earn Social Security credits. In 1997, you earn one credit for each \$670 (this amount goes up every year) in earnings you have with a maximum of four credits per year. In general, you will need forty credits (ten years of work) to qualify for benefits.

## SOCIAL SECURITY BENEFITS (Continued)

### **Retirement Benefits (Continued)**

#### (2) How to figure your benefits

Your Social Security benefit is based on your age and earnings averaged over your working lifetime. To determine your benefits, the government calculates your average adjusted monthly earnings based on your number of years of earnings, and multiplies that by percentages contained in a formula specified by law. This results in benefits equal to about 42% of a person's earnings. However, bear in mind that this is only an estimate and since the Social Security benefit formula is weighted in favor of low-income workers, the percentage is lower for people in the upper income brackets, and vice-versa.

#### (3) Payment of benefits

People born before 1938 will be eligible for their full Social Security benefits at the age of 65. For those who were born in 1938 and later, the age at which full benefits are payable will increase in gradual steps from 65 to 67. Even so, you may start receiving reduced benefits as early as age 62. In this case, even though the benefit is permanently reduced, the benefits are paid for a longer period of time. On the other hand, if you delay your retirement age, you can bring up your future Social Security benefits by both increasing your average earnings and receiving a special credit added to your benefits.

#### (4) Social Security payments when you are outside the U.S.

Depending on the country where you live, or your citizenship status, you may be able to receive Social Security payments or benefits when you are outside the U.S. If you are a U.S. or Japan citizen and plan to return to Japan, you may receive your Social Security payments in Japan as long as you are eligible for them. During the period you live outside the U.S., you will receive a questionnaire periodically that you will be required to fill out and return to the Social Security office. If you are receiving a foreign social security pension which is based on work not covered by U.S. Social Security in addition to your U.S. Social Security retirement or disability benefits, your U.S. Social Security benefits may be smaller because a different formula may be used to figure your U.S. Social Security benefits.

### **Disability Benefits**

To qualify for disability payments from Social Security based on your own work record, you must have a physical or mental impairment that is expected to keep you from working for at least a year, or you must have a condition that is expected to result in your death. Your Social Security disability benefits may be reduced if you get workers' compensation or certain other government disability benefits. To qualify for Social Security disability benefits, the total disability payments to you and your family from all sources cannot exceed 80% of your earnings averaged over a period of time shortly before your disability.

### **Benefits For Your Family**

When you start collecting retirement or disability benefits, each member of your family may also be eligible for a monthly benefit of up to 50% of your benefit rate if:

- Your spouse is 62 or older and collects a lower benefit on his or her own record;
- Your spouse, regardless of age, is caring for your child who is under 16 or disabled and receiving Social Security benefits;
- Your unmarried child is under age 18, is age 18 or older and was severely disabled before age 22, or is an elementary or secondary school full-time student under age 19.

However, the total benefits that can be paid to a family on your Social Security record is generally 150 to 180% of your retirement benefits and may be less for disability benefits.

### **Survivors Benefits**

When you die, certain members of your family may be eligible for benefits on your Social Security record if you earned enough credits while you were working. Each eligible survivor usually receives 75 to 100% of your basic Social Security benefit each month with a limit equal to about 150 to 180% of your benefit rate payable to a family.

## SOCIAL SECURITY BENEFITS (Continued)

### **Supplemental Security Income (SSI)**

If you haven't earned enough credits to get Social Security, you get only a small amount, or you are disabled while having low income and few assets, you may qualify for SSI benefits. To be eligible, you must be living in the U.S. or the Northern Mariana Islands and be at least 65 years old, blind, or disabled. Some other restrictions also apply. While the amount of SSI payments depend on where you live, the basic monthly SSI is the same in all states - \$484 if single and \$726 if married. However, you will get less if you receive other sources of income or assistance for food or shelter.

### **Tax On Your Social Security Benefits**

You may be taxed on the Social Security you get depending upon your combined income and filing status. Combined income means you and your spouse's adjusted gross income (as reported on your Form 1040), plus nontaxable interest, plus one-half of your Social Security benefits. No more than 85% of your Social Security benefits may be subject to income tax if you are a U.S. citizen or U.S. resident. If you are a nonresident alien, 25.5% of your benefit amount will be withheld for federal income taxes unless you reside in a country which has a tax treaty with the U.S. exempting U.S. Social Security benefits from taxation. Japan has a tax treaty with the U.S. which exempts Social Security benefits from tax and withholding.

### **Medicaid and Medicare**

Medicaid is a health care program for people with low income and limited assets, while Medicare is the basic health insurance program for people 65 or older and for many people with disabilities. Medicare provides (a) hospital insurance that helps pay for inpatient hospital care and certain follow-up services and, (b) medical insurance that helps pay for doctors' services, outpatient hospital care, and other medical services.

#### **(1) Eligibility for Medicare**

You are qualified for the hospital insurance if you're eligible for Social Security, or you may qualify on a spouse's record. Since the hospital insurance was paid for by your taxes while you worked, there is no cost to you once you become eligible. However, the medical insurance is an optional program that costs \$43.80 per month in 1997 and is available to almost anyone who is eligible for the hospital insurance. But you should be aware that your premium will be 10% higher for each 12-month period you could have been enrolled but were not. Medicare generally does not cover health care services you get outside the U.S.

### **Conclusion**

Due to the complexity of the rules governing the Social Security program, we are unable to cover every facet of the Social Security benefits that could be made available to you based on your own circumstances. If you plan to receive, or think you are eligible for, the benefits, we strongly recommend that you call or visit the nearest Social Security office for personal assistance.

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